

REQUEST FOR COUNCIL ACTION

MEETING

DATE: 08/04/03

AGENDA SECTION:

Hearings

ORIGINATING DEPT:

Finance Department

ITEM NO.

E-6

ITEM DESCRIPTION: Public Hearing to Consider Authorizing the Sale and Issuance of Housing Health Care Revenue Bonds, Series 2003

PREPARED BY:

Dale Martinson

Officials of Samaritan Bethany, Inc. requested this hearing to consider their proposal that the City issue revenue bonds on behalf of their firm in the approximate amount of \$7,600,000. The monies from the proposed issuance would be used to refund (refinance) outstanding bonds in the aggregate principal amount of \$6,630,000 which were used to finance or refinance their facility consisting of 95 units of multifamily housing for elderly persons, a 62-unit skilled nursing facility located in downtown Rochester and a 120-bed skilled nursing facility located at Samaritan Bethany Heights. Remaining proceeds would be used for renovation projects of the three facilities and for closing costs of the financing. The lower interest rates and revised repayment structure of the proposed bonds would reduce total annual debt service costs and provide a small net present value savings over the life of the financing.

The City hires "issuers bond counsel" to review all of the documents associated with such an issuance and provide assurance that these bonds "will not constitute an indebtedness, pecuniary liability, moral or general obligation, or a loan of the credit of the City or a charge, lien or encumbrance, legal or equitable, upon any property of the City and that repayment is solely from the revenues and property specifically pledged by Samaritan Bethany, Inc. for such payment." Further, this issue will not constitute a debt of the City within the meaning of any constitutional, statutory or charter debt limitation.

A representative of Samaritan Bethany will be available at the hearing to address any questions that may come up. It should be noted that Council did approve an exception to the City's policy on minimum denomination of bonds offered and therefore these will be sold in increments of \$5,000.

Approval of the attached resolution authorizes the Mayor and City clerk to execute final documents for the issue upon sale.

Recommendation:

Approval of the attached resolution giving approval to the issuance of revenue bonds on behalf of Samaritan Bethany, Inc. and authorizing Mayor and City Clerk to execute necessary documents.

COUNCIL ACTION: Motion by: _____ Second by: _____ to: _____

82

CITY OF ROCHESTER, MINNESOTA

PROGRAM FOR A MULTIFAMILY HOUSING DEVELOPMENT AND
HEALTH CARE FACILITY

UNDER MINNESOTA STATUTES, CHAPTER 462A AND 462C

SAMARITAN BETHANY, INC. PROJECT

General Program

The City believes that a need exists to maintain housing and health care facility options available to seniors within the City. To meet the elderly housing needs, the City intends in its discretion to encourage the development and maintenance in the City of multifamily housing and health care facilities particularly adapted to the needs of elderly residents. As a secondary benefit, to the extent elderly residents can be relocated into suitable multifamily and health care facility units, additional single family detached units may become available for sale to families of younger residents. A major method available to the City to facilitate construction and maintenance of multifamily housing and health care facilities is the issuance of tax-exempt bonds under Minnesota Statutes, Chapters 462A and 462C, and Section 145 of the Internal Revenue Code of 1986, as amended (the "Code"). The specific activities described in this Housing Program will be undertaken to further the policies and goals stated in the City's Housing Plan, which for these purposes is deemed to be the City's Consolidated Plan dated December, 1994.

Description of the Development To Be Financed

Samaritan Bethany, Inc. (the "Owner") has represented to the City that it is a corporation exempt from taxation pursuant to Section 501(c)(3) of the Code and has proposed to modify, maintain and refinance indebtedness with respect to its multifamily housing and health care facilities, consisting of a 29-unit assisted living residence, a 66-unit independent apartment residence, a 62-unit skilled nursing unit, and a 120-bed skilled nursing unit (together, the "Project"). Facilities comprising the Project are located at Eighth Street Northwest, 700 Second Avenue Northwest, and 1530 11th Ave. Northwest, each in the City.

Reference is made to Exhibit A attached hereto, which has been provided by the Owner, for a description of the building, renovation projects and other attributes of the Project, as provided by or on behalf of the Owner.

Revenue Bond Financing

The Owner proposes that the City finance the renovation and maintenance of and refinancing of indebtedness with respect to the Project by issuing revenue bonds (the "Bonds") in an amount not to exceed \$7,500,000 for its tax-exempt Series 2003A, and in the amount of

approximately \$100,000 for its taxable Series 2003B, the revenue bonds to be issued pursuant to the authority of Minnesota Statutes, Sections 462C.05, subdivisions 1 and 4, 462C.07, subdivision 1, and 462A.08, subdivision 2.

The Owner has indicated that the underwriter of the Bonds will be U.S. Bancorp Piper Jaffray, Inc.; that the Bond sale is expected to be completed by the end of August, 2003; that the attached Exhibit B is a Sources and Uses of Funds Summary showing, on a preliminary basis, the Bonds to be issued and the costs to be paid; and that it is likely that the final sources and uses will vary from this Exhibit – but that the aggregate principal amount of Bonds to be issued will not exceed the figures above.

The Bonds will not be general or moral obligations of the City, and will not be payable from or secured by City funds or other assets, but will be secured only by the revenues and property specifically pledged by or on behalf of the Owner to the payment thereof pursuant to the revenue agreement and trust indenture pursuant to which the Bonds will be issued.

Meeting Needs of Low and Moderate Income Persons

It has been represented to the City by or on behalf of the Owner that pursuant to Section 462C.05, subdivision 4, no statutory income limits are applicable to the Project because the Project is designed for rental primarily to elderly persons. Further, Section 145 of the Code imposes no income or rent limits on developments financed with “qualified 501(c)(3) bonds” pursuant to said Section.

Bond Allocation

Since the Owner anticipates that the Series 2003A Bonds will be issued on a tax-exempt basis as “qualified 501(c)(3) bonds” pursuant to Section 145 of the Code, the Owner has represented that no allocation of bonding authority is required pursuant to the provisions of Section 146 of the Code.

Monitoring Methods

No special monitoring by the City is anticipated to be necessary in connection with the construction or refinancing of the Project, but any such monitoring will be provided or arranged by the Owner. Proceeds of the Bonds proposed to be issued to finance the renovation of the Project are expected by the Owner to be held and disbursed by a trustee bank during renovation, and it is believed the disbursement procedure exercised by the trustee bank and the oversight exercised by certain other parties will be adequate to insure that the financing and refinancing of the Project as presented are in fact carried out. The Project must be operated by the Owner in accordance with various operating covenants (relating to such things as maintenance, insurance, etc.) to be contained in the revenue agreement to be entered into by the City, the Owner and certain other parties, which revenue agreement will be assigned by the City, substantially to the extent of the City’s interests, to the trustee bank as security for the Bondholders. The issuance of

84

the Bonds shall be subject to the final approval by the Rochester Common Council in its sole and absolute discretion.

All costs incurred by the City in connection with the Project will be paid by the Owner.

Housing Program Dated July 16, 2003
Public Hearing To Be Held August 4, 2003

85 -

EXHIBIT A

Description of Buildings, Renovation Projects and other Attributes of the Project

Most of the proceeds of the Bonds will be used to refund the City's Nursing Home and Multifamily Housing Revenue Bonds (Samaritan Bethany, Inc. Project), Series 1996A, and Nursing Home and Multifamily Housing Revenue Bonds (Samaritan Bethany, Inc. Project), Series 1996B Bonds, which are presently outstanding in the aggregate amount of \$6,630,000. The proceeds of the Bonds to be used for expenditures with respect to the Project may be used for:

- acquisition of property adjacent to the downtown campus of the Owner
- capital improvements to the 62-unit skilled nursing facility and 120-bed skilled nursing facility, potentially including bed replacement and bathroom upgrades (lighting, paint, wall repair, floor replacement)

68

EXHIBIT B

Sources and Uses of Funds Summary

Sources of Funds

Bond Proceeds	\$7,600,000
Reserve Fund from 1996 Bonds	<u>\$530,000</u>
	\$8,130,000

Uses of Funds

Principal of Refunded Bonds	\$6,630,000
Interest on Refunded Bonds	\$ _____
Capital improvements and Land Acquisition	\$500,000
Funding of Reserve Fund with Respect to the Bonds	\$530,000
Costs of issuance of the Bonds	<u>\$250,000</u>
	\$ _____